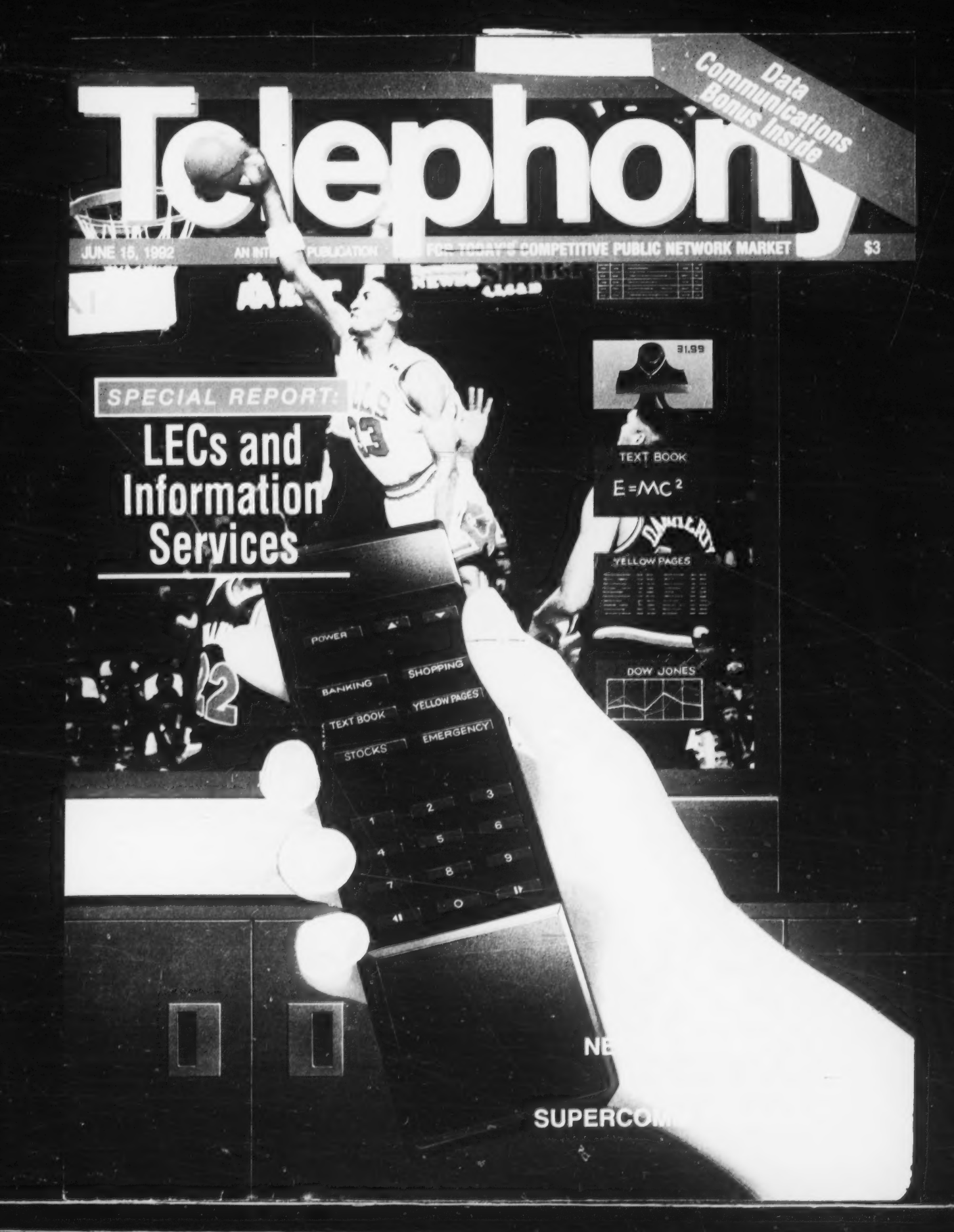
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MONDAY, JUNE 15, 1992 Volume 222, No. 24

Telephony

FOR TODAY'S COMPETITIVE PUBLIC NETWORK MARKET

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SPECIAL REPORT: TELCOS IN INFORMATION SERVICES
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Cover illustration by Michael Jones, photograph by Freddie Bautista

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Telemarketing service agencies: Can they lead LECs into information services?

DANIEL N. MILLER

Aside from telephone answering service (TAS) providers, telemarketing service agencies (TSAs) are probably the longest standing group of enhanced service providers (ESPs) on the public switched telephone network.

If this cluster of acronyms doesn't send you to Vanna for another vowel, consider the conclusions shown on page 110 from the *Service Bureau and Telemarketing Service Agency Database and Strategic Report* just released by New York-based Strategic Telemedia. In mid-1991 Strategic Telemedia mailed questionnaires to more than 750 TSAs asking them to identify key executives, 1990 call traffic and revenue, growth expectations, leading applications, campaigns and customers, ancillary services offered, technology in use and pricing policy. The research showed that today's sophisticated TSAs offer a glimpse of the future of

continued on page 110

TABLE 1 TOP 25 AGENCIES

	Companies	Installed lines or positions	Type
1	Lo-Ad Communications	27,000	Hybrid
2	HSN 800/900 Corp.	20,000	Hybrid
3	American Communications & Engineering'	14,000	Hybrid
4	Call Interactive	10,000	Hybrid
5	Audio Communicationd Inc. (ACI)	5400	Hybrid
6	JC Penney Telemarketing Inc.	5000*	Live
7	Pioneer TeleTechnologies Inc.	4890	Live
8	Network Telephone Services Inc. (NTS)	4578	Auto
9	National Data Corp. (NDC)	4100	Hybrid
10	AT&T American TransTech	4000	Hybrid
11	Sprint TeleMedia	3700+	Hybrid
12	The Gateway Group	3500	Auto
13	Ameritech Audiotex Services Inc.	3500+	Auto
14	MCI/Telecom USA Direct	3425	Live
15	Phoneworks	3000	Auto
16	Source Communications	3000	Auto
17	AT&T-InfoWorx	3000+	Auto
18	DialAmerica Marketing Inc.	2900	Live
19	West Telemarketing Corp.	2755	Hybrid
20	Interactive Telemedia Inc. (ITM)	2688	Hybrid
21	Scherers Communications	2400	Auto
22	Idelman Telemarketing	2214	Hybrid
23	Matrix Message Centers	2150	Live
24	Matrixx Marketing Inc.	2094	Live
25	Bellatrix Communications	2000	Auto

'Since acquired by NTS *estimated

Source: Strategic Telemedia 1991, Volume II

telephone-based information retrieval and transaction processing services. Strategic Telemedia expects the evolution of TSAs to present new business opportunities and competitive challenges for both local exchange carriers and interexchange carriers.

In the study, the TSAs are segmented into three overall groups: live, automated and hybrid. Live agencies employ live telemarketing service representatives (TSRs) to handle media-stimulated inbound calls and to originate outbound telemarketing activities. Automated agencies employ interactive voice information or voice response systems primarily to support inbound information and entertainment services. Hybrid agencies are the fastest-growing segment. These agencies evolved as existing live or automated service bureaus and added new technologies in response to demand for greater functionality or capacity.

Table 1, which depicts the top 25 agencies, indicates that seven of the 10 largest shops are hybrids, while agencies such as JC Penney Telemarketing and Pioneer TeleTechnologies have remained predominantly live agencies that also rely on automated call processing and database systems.

It's a gold mine

These are some of the conclusions of the *Service Bureau and Telemarketing Service Agency Database and Strategic Report* from Strategic Telemedia.

- TSAs will generate call-based revenues of more than $3 billion in 1996, after deducting long-distance charges. That's up from a little less than $1.9 billion in 1990.
- In 1991 TSAs generated an estimated 274 million calls, both inbound and outbound, accounting for approximately 779 million minutes of use on various public networks.
- Industry leaders are emerging as one-stop shops not only for direct marketing, but also for marketing database development and list processing, advertising program production and development, order capture, payment authorization and processing, warehousing and order fulfillment.
- Large TSAs routinely integrate call processing, voice processing and information processing technologies, which provide a showcase for advanced network capabilities. They also demonstrate new revenue-generating applications that use the integrated services digital network and the advanced intelligent network and incorporate such network features as automatic number identification.

Evolutionary Trends

The breakdown of lines employed by these segments is shown in Table 2. The longest-standing industry participants are the service bureaus built around live operators handling inbound calls to support media-stimulated order capture, as well as outbound lead generation and telemarketing. Strategic Telemedia's survey shows, however, that live operators are giving way to automated voice systems, especially in the area of inbound information retrieval.

TABLE 2
TOTAL NUMBER OF LINES BY SEGMENT

Live inbound	18,530
Live inbound/outbound	97,240
Live outbound	51,941
Hybrid	103,271
Automated	100,846
Total lines	371,828

Source: Strategic Telemedia, 1991

Of the 371,828 lines employed by TSAs, only 53% are served by live operators, and that percentage is shrinking.

The growth of automated agencies has been fueled to a large degree by the increasing popularity of 900 numbers for caller-paid access to information and entertainment services. Centralized service bureaus connected to interLATA networks have taken the place of banks of tape recorders for inbound, automated services on local networks—the proverbial "soaps, 'scopes and jokes" business.

The future of 900 services is cloudy in the wake of increased government scrutiny and moves by Sprint TeleMedia and others to limit their offerings. High levels of growth in purely automated facilities is not expected to persist. Instead, hybrid agencies that support both live operators and automated voice processing systems will proliferate, as existing facilities, which were either exclusively live or exclusively automated, append the other technology to their core business to satisfy customer demand for one-stop shopping.

Survey responses indicate that today there is little functional integration between the automated and live sides of hybrid bureaus. In many cases, they act as two separate business units within an agency. Based on conversations held in conjunction with the survey, however, Strategic Telemedia expects these agencies to integrate more automated voice processing technologies into the critical path of their business.

A case in point is HSN 800/900 Corp., which got its start by developing "Tootie," a highly automated, voice response-based order capture system used by the Home Shopping Network. HSN has closely integrated live and automated functions to the point where roughly 50% of the 200,000 calls it receives per day are handled by Tootie rather than by a live TSR.

Besides changes in technology, there is also significant industry consolidation. Even though there are more than 1200 firms in the industry, the top five firms already account for 20% of the lines in use. In fact, the top 3% of firms represent 34% of the industry's capacity while the lower 52% represent

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only 10% of capacity.

The numbers are expected to continue to skew toward larger operators that can enjoy economies of scale, benefit from installing a greater number of automated lines, and build more valuable databases of customers, prospects and products from which their clients can benefit.

> *LECs and intraLATA carriers alike should be showcasing how TSAs act as leading-edge users of new network features.*

Heads Up

With the ban against Bell operating companies entering the information services industry crumbling, TSAs should be of interest to BOC management either as potential alliance partners or acquisition candidates. Leading Independent telephone companies such as Cincinnati Bell and Lincoln Telephone and long-distance carriers such as AT&T, MCI, Sprint and Advanced Telecommunications Corp., all of which do not operate under antitrust restrictions, have already dabbled in operating hybrid bureaus with some success.

An industry whose 1990 revenues were approximately $1.9 billion, after deducting long-distance charges, may not make the mergers and acquisitions specialists at an RHC salivate. This family of call centers is at the vortex of the multibillion-dollar telemarketing industry, which includes the inbound and outbound operations of major financial services companies, catalogue retailers, credit card issuers and others. Table 3 shows that the three leading service bureau applications in terms of 1990 revenues were order capture, lead generation and fund raising. Also making a significant showing were information retrieval services and customer service applications.

LECs and intraLATA carriers alike should be showcasing how TSAs act as leading-edge users of new network features. This family of service providers actually has use for automatic number identification (ANI), dialed-number information service and custom local area signaling services.

They have integrated these often arcane features into their work flow and have demonstrated reduced operating expenses and promoted operator productivity.

In the near term, firms across many industries are expected to turn to judicious use of TSA functions to support more cost-effective methods for telephone-based direct marketing. As LECs sink a significant percentage of overhead expenses into customer service activities—including business office functions like order negotiation, billing inquiries and service order entry—the name of the game for managers of these operations may be to emulate hybrid TSAs to reduce operating expenses. Services now offered by full-service TSA shops foreshadow those that could be offered using the public network's enhanced services platforms for operator services, customer service, transaction processing and database marketing.

Operator services groups at LECs use essentially the same technologies as TSAs to provide directory assistance services. In fact, a manager of operator services for a large LEC, when asked the major difference between his operation and a large telemarketing service bureau replied, "about $4 an hour," referring to the hourly wage rate differential between the union shops operated by large carriers and an average TSA.

To control costs and foster productivity, telco managers have been quick to install new technologies to accelerate call handling and operator efficiency. The question remains whether LECs are using their internal operator service platforms to their greatest revenue-generating potential. TSAs, with operators on duty 24 hours a day with real-time access to product information, payment authorization mechanisms and customer profiles based on ANI, may provide a look at the operator services operations after divestiture. ■

TABLE 3 TOP REVENUE-GENERATING APPLICATIONS IN 1990

Application	Total revenue in U.S. dollars	Percentage of revenue
Order capture	$510,472,304	28%
Lead generation	438,491,562	24
Fund raising	299,562,335	16
Information	185,852,557	10
Customer service	118,495,866	7
Polling/surveying	98,732,226	5
Dealer locator	96,357,018	5
Other (<5%)	88,151,810	5
Total	1,836,115,678	100

Source: Strategic Telemedia, 1991

Daniel N. Miller is President of Opus Research, a San Francisco, Calif., affiliate of Strategic Telemedia.

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